

**REMARKS OF HENRY L. HENDERSON  
COMMISSIONER OF THE CHICAGO DEPARTMENT OF ENVIRONMENT  
TO THE ENERGY AND POWER SUBCOMMITTEE  
OF THE COMMERCE COMMITTEE  
MAY 2, 1998**

On behalf of Mayor Daley, I would like to welcome you to Chicago and thank you for holding these hearings. Hearings here and at this time are particularly appropriate because energy deregulation is as critical for citizens and businesses in Chicago and throughout Illinois as it is for our nation's economy.

**I. The ability to choose electric power suppliers will bring enormous benefits to consumers**

Chicago area customers pay some of the highest electric rates in the nation. These rates burden our citizens and act as an obstacle to economic growth. In response to this problem, the City of Chicago joined with others to form the Local Government Power Alliance to study energy deregulation in Illinois.

Our findings are clear. Electric rates in northern Illinois are over 22% higher than the rest of the Midwest. Because of our utility's monopoly status, our residents and businesses pay more for electricity than they could purchase it for in a competitive market environment. Because of the utility's bad investment decisions to spend billions of dollars on nuclear plants that they cannot run efficiently, investment in needed upgrades to the antiquated transmission and distribution system has been constrained. Electricity in this state can be cheaper and more reliable, and deregulation, done correctly, will benefit customers in Illinois.

Not only can it benefit residents and existing businesses, it will help the region to create and attract new businesses and jobs. We also found that deregulation done the wrong way will have the opposite effect, hurting ratepayers and stunting economic growth. That is why we are calling for state legislation that mandates immediate rate reduction, prompt and simultaneous access to competitive electricity markets, and enforceable reliability standards.

**II. Federal legislation.**

While action on electricity deregulation is important for Illinois and the nation, the issues faced by electric customers and companies in Illinois may be very different from the issues facing consumers in New York or Montana. Any effective deregulation legislation must mandate a "date certain" for universal, open access. It is important that all ratepayers be able to access the market for power at the same time, and soon. Any federal legislation should be flexible enough that the important issues surrounding deregulation can be handled by each state, taking into account the unique situation in each state.

Further, the City is concerned that any federal legislation not preempt the traditional police powers of state and local governments to ensure reliable service and to control access to and reimbursement from use of the public right of way. Additionally, any federal legislation should preserve reasonable local taxing authority.

The issues of high costs and reliability are of particular concern to ratepayers in northern Illinois. Most Illinois customers are hurt by the high rates charged by an established monopoly, which forces them to foot the bill for inefficient, unprofitable nuclear power plants. Many of our residents live in areas with unreliable service, caused by the diversion of funds that should have been spent on replacing pre-World War II transmission systems to the construction of those unreliable nuclear plants. These are the types of issues that need to be addressed on the state level, and cannot be handled at the federal level.

### **III. Legislative Goals and Principles.**

In seeking efficient deregulation of the electric industry, the Mayor has set forth the following set of basic principles:

- Rate relief for residential and small business customers must be the centerpiece of legislation. Because the savings available on the open market are so substantial, we are calling for immediate, mandated rate relief during the transition to the open market.
- All classes of customers, from small residential to large industrial users, should be able to take advantage of the lower electric rates that the open market can provide simultaneously, and as soon as possible. We propose that mandated lower electric costs be followed by simultaneous access to the open market for all customer classes in 2001.
- Legislation should reject the “stranded cost” recovery concept proposed by Illinois utilities Commonwealth Edison and Illinois Power. The concept of “stranded investments” should be replaced with “transition payments.” Our concern is the appropriate level of assistance needed to aid utilities in transitioning to a competitive environment. Tests for transition surcharge payments should be based on recognized industry-wide financial criteria, and the burden of transition surcharges must be allocated equitable among all customers.
- Reliability must be improved as part of deregulation. We are working towards transfer of regional transmission operations to an independent system operator to guarantee efficient and reliable transmission of power between suppliers and customers. We also seek state legislation to ensure the reliability of transmission distribution systems within the state. Utilities that do not meet high reliability standards should be denied transition payments.
- To protect the municipalities who derive significant tax and franchise fee revenues from this industry, we advocate replacement of the current system with one that ensures revenue neutrality for local governments.

- Existing anti-trust laws and laws protecting consumers and the environment must apply to all electric service providers to assure fair and open competition.
- Universal service requirements must be established so that low income and rural customers are ensured access to electricity in a competitive environment.
- Legislation should allow governmental entities to aggregate their load at various facilities to qualify for more favorable rates or improve their negotiating leverage in an open market, and thus benefit taxpayers. The legislation should also facilitate customer aggregation or other arrangements -- such as a not-for-profit market aggregator and/or exemption from payment of transition charges -- to increase economic leverage and negotiating ability of low income and low-use residential customers.

As you consider possible federal legislation, we recommend that you consider the variety of issues that face legislatures, regulators, utilities and customers in all parts of the country, and give states the ability to develop legislation that fits their needs.

The issue of electricity deregulation could affect virtually every person who lives and works in the country. Here in Illinois we are working hard to put together a deregulation plan that will benefit our ratepayers both large and small. If federal legislation is enacted, we strongly urge you to exempt those states that have passed deregulation laws tailored to their specific needs and characteristics. Thank you for this opportunity to testify before you today. We see positive things in this hearing, and look forward to working with you on this important matter.